ANALYSIS OF ORIGINAL BILL

Author: Murray

Analyst: Kimberly Pantoja

Bill Number: SB 1817

Related Bills: See Legislative History

Telephone: 845-4786

Introduced Date: 02/24/2000

Attorney: Patrick Kusiak

Sponsor:

SUBJECT: Internet Connection And Access Device Credit

SUMMARY

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would provide a credit of an unspecified amount to any taxpayer who provides an Internet connection and an Internet access device without charge to a low-income household.

EFFECTIVE DATE

As a tax levy, this bill would be effective immediately upon enactment. This bill specifies that it would apply to taxable and income years beginning on or after January 1, 2000, and before January 1, 2006.

LEGISLATIVE HISTORY

SB 1626 (2000) proposes a refundable credit for specified low-income taxpayers who purchase a personal computer, printer, and access to the Internet. AB 2163 (2000) proposes credits for taxpayers who provide low-income households a computer or Internet access.

SPECIFIC FINDINGS

Existing federal and state laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities which they may not otherwise undertake.

Existing state law provides general rules that apply to the division of credits among two or more taxpayers, a husband and wife, and partners.

Under the **state Public Utilities Code**, Lifeline telephone service is a discounted residential telephone service available to those subscribers who, among other requirements, meet the following total household gross income requirements for 2000:

Number of people	Annual gross income
1-2	$17,750
3	$20,910
Each additional person	add $4,180

Board Position:

______ S	______ NA	______ NP
______ SA	______ O	______ NAR
______ N	______ OUA	__X__ PENDING

Department Director: Gerald H. Goldberg

Date: 3/20/00

Current federal and state laws do not allow a credit for providing Internet connections and Internet access devices.

This bill would provide a credit of an unspecified amount to any taxpayer who provides an Internet connection and an Internet access device without charge to a low-income household.

The bill defines "low-income household" as a household that meets the same income standards currently in law for lifeline telephone service <u>and</u> has at least one child enrolled in public school in grades K to 12, inclusive.

This bill would allow any unused credit to be carried over until exhausted. Since **this bill** does not specify otherwise, the general rules in state law that apply to the division of credits among two or more taxpayers would apply.

<u>Policy Considerations</u>

This bill does not restrict the credit to taxpayers that provide Internet connections and Internet access devices to low-income households located within California.

Currently the department is moving toward paperless, electronically filed (E-file) returns. This bill would support the direction of the department by allowing more taxpayers to access the Internet.

<u>Implementation Considerations</u>

This bill uses the terms "Internet connection" and "Internet access device;" however, these terms are not defined in the bill. It is unclear whether "Internet connection" would include only the dial-up account or also the phone line and installation if necessary. It is unclear whether "Internet access device" would include only a modem or the computer, monitor, cables, software, etc. or also such devices as Web-TV. The absence of definitions to clarify these terms could lead to disputes between the department and taxpayers and thus could complicate the administration of the credit.

The bill does not specify the length of time during the year that the Internet service must be provided to qualify for the credit. Therefore, it appears if service were provided for any period during a taxable or income year, the taxpayer would qualify for the credit. It is also unclear whether the taxpayer would qualify for the credit if the taxpayer allowed a low-income household to access the Internet by using the taxpayer's Internet connection and Internet access device. The bill needs clarification to ensure that the low-income household receives the benefit intended by the author.

Given the nature of the Internet, a taxpayer may provide an Internet connection to dozens of customers in many different cities. Franchise Tax Board (FTB) would be unable to easily verify the taxpayer's eligibility for the credit without an audit. Some method is needed to guarantee that the taxpayer verified the low-income eligibility of the household and to require that the taxpayer provide that verification to the department upon request.

This bill does not limit the number of years for the carryover of unused credit amounts. The department would be required to retain the credit carryover on the tax forms indefinitely because unlimited credit carryover is allowed. Recent credits have been enacted with a carryover limit since experience shows credits are typically used within eight years of being earned.

FISCAL IMPACT

Departmental Costs

Once the implementation concerns are resolved, this bill should not significantly impact the department's costs.

Tax Revenue Estimate

This proposal is estimated to impact PIT and B&CT revenues as shown in the following table.

Fiscal Year Cash Flow Taxable Years Beginning After December 31, 1999 Enactment Assumed After June 30, 2000 $ Millions		
2000-01	2001-02	2002-03
-$6	-$6	-$6

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Note: It is assumed that low-income households must be in California and only "donations" would qualify, not employee benefit compensation options. The bill does not yet specify what an Internet access device includes, the length of time the service (connection) must be provided by the taxpayer, and the amount of credit. For this analysis, it is assumed that an Internet access device is a computer (new or used) that has the necessary hardware to connect to the Internet, the service (connection) would be provided for one year, and the credit amount would be equal to the fair market value of these two components. This estimate assumes 9,500 households would receive Internet devices and access, at a cost of $640 each.

Tax Revenue Discussion

The revenue impact for this bill will be determined by the number of low-income households that qualify for the donations, the number of taxpayers donating to those qualified, the cost, and the amount of credits that can be applied against available tax liabilities.

This estimate was developed in the following steps. First, according to Internal Revenue Service data (Statistics of Income Bulletin), approximately 2.5 million Californians claimed the federal Earned Income Tax Credit (EIC) for tax year 1997. Since the federal EIC is available for taxpayers with incomes of less than $30,000, it was assumed that these households would meet the income test for receiving donations. Second, this number was grown 5% per year, yielding approximately 2.8 million households for 2000.

Third, this number was adjusted downward by one-fourth to account for households that would either not have a child enrolled in grades K-12, leaving approximately 2.1 million households for tax year 2000. Fourth, 40% of all U.S. households reportedly have computers, compared to 8% for families with less than $10,000 of annual income. It was projected for this analysis that 13% of households with less than $30,000 of annual income are currently computer owners. This percentage was used to reduce the number of qualifying households, leaving approximately 1.9 million with less than $30,000 of annual income for tax year 2000. Fifth, the average cost for an Internet device (i.e., a personal computer) and connection was projected to be approximately $640 ($240 for the Internet connection and $400 for the Internet device).

According to the Detwilder Foundation for computers, the majority of taxpayers donate used or unwanted computers to schools/libraries, not individual households. Employers, such as Intel, that are or may provide personal computers to employees are doing this as part of an overall benefits package, not as donations (the latter is assumed for this analysis).

It is unknown how many taxpayers would donate an Internet device and provide an Internet connection without charge to low-income families. However, if 9,500 households (approximately one-half of one percent of the above total households) receive donations in any given year, the revenue loss would be on the order of $6 million annually. This impact allows for the fact that many donors would be redirecting used computers from public schools to households to take advantage of the tax credit.

BOARD POSITION

Pending.